

Agenda Item 12



Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	Lincolnshire Pension Board
Date:	03 October 2019
Subject:	Draft Funding Strategy Statement

Summary:

This paper brings the draft Funding Strategy Statement (FSS) to the Board for information. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence.

The FSS will be sent to all employers in the Fund with their draft results in November, for consultation, before being brought back to the Pensions Committee for final approval in March.

Recommendation(s):

That the Board note the report and consider the draft Funding Strategy Statement.

Background

1. The Funding Strategy Statement (FSS) (draft attached as Appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation.
2. As employees contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities. The final agreed contribution rates for employers are shown in appendix B.
3. The purpose of the FSS, as defined by the Ministry of Housing, Communities and Local Government (MHCLG), is:
 - to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;

- to support the regulatory framework to maintain as **nearly constant employer contribution rates as possible**; and
 - to take a **prudent longer-term view** of funding those liabilities.
4. The aim of this funding policy is:
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
 - to ensure that employer contribution rates are reasonably stable where appropriate;
 - to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
 - to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
 - to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.
5. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:
- What is a suitably (but not overly) prudent funding target?
 - How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
 - What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.
6. The FSS also includes mechanisms for dealing with employers ceasing, ill-health retirements and early retirement costs.

7. The key risks, around financial, demographic and governance issues, and the controls in place are detailed in appendix C of the FSS.
8. The FSS should be read alongside the Triennial Valuation Report, the Investment Strategy Statement and the Governance Compliance Statement to provide a full overview of the Fund's governance structure.
9. As the Board are aware, there are some outstanding issues that require clarification/agreement before the FSS can be finalised. It is expected that further information will be available before the document is sent to employers in November. The key areas are highlighted in yellow and cover the subjects below:
 - the McCloud court case and its potential impact on the LGPS benefits structure;
 - the LGPS Valuation cycle;
 - the position of higher education establishments within the Regulations;
 - the Fund's approach to ill health insurance; and
 - those areas requiring review once draft individual results are available.
10. The key changes to the document since the last version updated in 2018 are shown below:
 - Additional wording to cover new 'Exit credits' legislation (throughout);
 - Tidying up of actuarial terminology and additional explanation of Hymans Economic Scenario Service model (throughout and appendix E);
 - Dealing with McCloud/cost cap benefit uncertainty (Section 2.6 and Section 3.3 note j);
 - Noting the Valuation cycle consultation and the Fund's policy on interim assessments (Section 2.7);
 - Tidying up the wording for the approach for new academies joining the Fund or moving to/from a Multi-Academy Trust (Section 3.3 note g); and
 - Extended wording to cover possible employer post cessation agreements (Section 3.3 note j).
11. The FSS will be sent to all employers in the Fund for consultation with their draft valuation results. This will allow them with an opportunity to raise any questions or comments ahead of this being brought back to the Pensions Committee for final approval in March.

Conclusion

12. The Funding Strategy Statement has been reviewed as part of the 2019 Triennial Valuation process, and has been updated to take account of the strategy used to finalise employer contribution rates. The FSS will be sent to all employers in the Fund with their draft results in November, for consultation, before being brought back to the Pensions Committee for final approval.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Funding Strategy Statement 2019

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.